

## **Notes to Appendix 4**

### **Corporate Tax Liability by Net Income**

For taxable year 2003, 589,310 corporate returns were filed in California. Appendix 4 groups corporate taxpayers by ranges of State Net Income Taxable in California and provides comparisons based upon number of returns filed within each group, total tax liabilities for each group, and percentages, both independent and cumulative, for the collective activity of each group. Note, that because California requires a single combined report to be filed with the state for unitary businesses, the number of returns filed will be less than the number of corporations actually doing business in California.

Examples for the use of Appendix 4 follow:

- (1) More than 45% of all corporate returns filed in California for taxable year 2003 reflect either a Net Loss or No Income or Loss. Reasons for lack of State Net Income Taxable in California include (a) businesses actually operating at a loss, (b) tax deductions that exceed actual cash expenditures for the tax year, (c) accelerated tax deductions over comparable book deductions, and (d) corporations that try to "zero-out" their net income through payments of salaries, wages, and bonuses to employee-shareholders. Corporate efforts to "zero-out" income results in the income being taxed at the individual level, rather than the corporate level.
- (2) 11.0% of all corporations filing returns in California for taxable year 2003 report State Net Income Taxable in California of \$100,000 or more and account for 91%\* of the total tax liability of all corporate tax returns filed for 2003.
- (3) 1.6% of all corporations filing returns in California for taxable year 2003 report State Net Income Taxable in California of \$1,000,000 or more and account for 82.1%\* of the total tax liability of all corporate tax returns filed for 2003.
- (4) 0.2% of all corporations filing returns in California for taxable year 2003 report State Net Income Taxable in California of \$10,000,000 or more and account for 67.4% of the total tax liability of all corporate tax returns filed for 2003.